BOND'S

AMERICA'S LARGEST CLOTHIER

A WORLD OF FASHION FOR MEN, WOMEN, BOYS AND GIRLS

1968 ANNUAL REPORT

YEAR ENDED JULY 31, 1968/BOND STORES, INCORPORATED

1968

YEAR ENDED JULY 31, 1968/BOND STORES, INCORPORATED

OFFICERS

IRVING COHEN	*Chairman of the Board & Treasurer*
ELLIS H. SCHECHTMAN	*President*
IRVING MOSELOWITZ	*Executive Vice-President*
MAURIE SANGER	*Vice-President*
LOUIS A. GOOD	*Vice-President*
SIDNEY L. ROSENBLOOM	*Vice-President*
IRVING VOGEL	*Vice-President*
LAURENCE L. SHAPIRO	*Vice-President & Secretary*
JOHN B. GOETKE	*Assistant Secretary*

BOARD OF DIRECTORS

H. ROE BARTLE
IRVING COHEN
LOUIS A. GOOD
JOSEPH KLINGENSTEIN
IRVING MOSELOWITZ
MORRIS NATELSON
CHARLES F. PHILLIPS
SIDNEY L. ROSENBLOOM
MAURIE SANGER
ELLIS H. SCHECHTMAN

TRANSFER AGENT

FIRST NATIONAL CITY BANK, 111 Wall Street, New York, N.Y. 10015

REGISTRAR

BANKERS TRUST COMPANY, 16 Wall Street, New York, N.Y. 10015

BOND STORES, INCORPORATED

FIFTH AVENUE AT 35TH STREET, NEW YORK, N.Y. 10001

October 16, 1968

Dear Fellow Stockholder:

The year ended July 31, 1968 marked a significant milestone in Bond's history. It was the year in which, for the first time, volume exceeded $100 million. Annual sales of $105,206,713 were $5,947,907 or 6% higher than the $99,258,806 of sales volume for the prior fiscal year.

The net income for the year aggregated $7,181,688 or $6.17 a common share, but it should be noted that this includes an extraordinary item of $4,863,826 or $4.18 a share, representing the net gain on sale of real estate. Before such extraordinary item, income amounted to $2,317,862 or $1.99 a share, which compares with net income of $1,797,867 or $1.54 per share for the preceding year, an increase of 28.9%. It should be further noted that in the current year, the provisions for federal income tax included a surtax of approximately $210,000 equal to 18¢ per share. Of this amount, $88,000 or 7½¢ per share was applicable to the gain on the sale of real estate.

After payment during the year of $1,164,339 in cash dividends to stockholders, the balance of net income, including the extraordinary item hereinbefore referred to, was added to surplus. Book value per common share at the year-end was $42.71 as compared with $37.54 per share at July 31, 1967. Net working capital amounted to $44,496,973 or $38.22 a share. The ratio of current assets to current liabilities was 3.5 to 1.

Stockholders are reminded of the following provision as set forth in an Invitation for Tenders of Common Stock dated March 11, 1966:

> "While appropriate provisions have been made to finance the purchase of its shares pursuant to this offer, the Company may give consideration, among other alternatives, to the possibility of utilizing its real estate as a source of financing. In such event the Company would hope to realize an amount in excess of the net amount at which such real estate is carried on its books."

Accordingly, we are pleased to report that in 1968, we sold the Times Square, New York City real estate to a purchaser who plans to replace the present two-and-three-story structures with a high-rise building. The net gain on this transaction, as commented on above, amounted to $4,863,826 or $4.18 a share, after deduction of expenses in connection with the sale and applicable federal and state income taxes. Because Bond has a very important store at this location, it was considered vital to arrange a continuance of a store there as a condition of any sale. Accordingly, Bond arranged with the purchaser, through appropriate leases, for continued occupancy until razing would require temporary closing; and then, upon completion of the high-rise building, provision for an important store for a long term at the corner of Broadway and 45th Street.

Inventory of raw materials, work in process and finished products in stores, factories, warehouses and in transit amounted to $33,136,816, an increase of $1,115,806 over prior year-end inventory. Such increase resulted

from our decision to accelerate purchases and production before year-end, in advance of our anticipated raw material and labor increases, as well as to be fully prepared for the earlier-than-usual back-to-school retail activity. Additionally, inventory had to be provided for the opening of new stores during the latter half of fiscal 1968 and the first half of fiscal 1969.

Although we had planned to open six new stores during the year, construction delays resulted in limiting our openings to four. These were North Valley Shopping Center and New Englewood, both in Denver, Colorado, on October 18, 1967 and March 7, 1968, respectively. Columbia Mall, Atlanta, Georgia, was opened on November 9, 1967, and Montgomery Mall in suburban Washington, D.C., was opened on March 6, 1968.

Approximately eight new stores are planned for opening during fiscal 1969. Of these, we opened three new shopping center stores, all located in California, in September 1968. These were Sun Valley, Concord, a community located approximately 30 miles north of San Francisco; Serramonte in Daly City, a suburb of San Francisco; and Montclair, a community located approximately 60 miles due east of Los Angeles. We are pleased to report that each of these new stores is performing up to our expectations. During October 1968, we opened a new store in a downtown mall in Buffalo, New York, referred to as Main Place. As of this writing, it is too soon to report on that store's performance.

Continuance of our program for disposing of nonprofitable stores and departments within stores is an important part of our program to improve profits. Our ultimate goal, of course, is total elimination of all unprofitable operations. In keeping with this program, we closed two stores during the fiscal year, so that there were 145 stores in operation at the fiscal year-end. Since the beginning of the 1969 fiscal year, we have closed three additional stores.

We have developed a time schedule and are currently carrying out a five-year plan for refurbishing and modernizing existing downtown, as well as shopping center stores, where lease terms and conditions, as well as profitability, warrant such undertaking. In connection therewith, together with new store investments, capital expenditures for the fiscal year amounted to $1,195,627.

We are continuing our program of recruitment of skilled tailors from abroad. Additionally, we are currently seeking to acquire manufacturing companies with production facilities located in markets where the labor problem is less acute than it is in those markets where our factories are located. Should we succeed in acquiring one or more such companies, we should then be in a better position to accelerate our expansion and acquisition programs.

May we conclude this report with the following observations and comments. Despite war uncertainties, higher prices, higher social security and income tax assessments, income levels continue to rise and consumers are upgrading their buying habits. Such upgrading involves not only a willingness to buy in better price lines, but is also indicative of a growing awareness of fashion, style and quality. Our better price lines in men's clothing which we recently introduced, have been well received. As always, this merchandise will continue to be most favorably priced, in keeping with our policy and practice of offering outstandingly competitive day-to-day values. In further support of this program, we have decided to adopt a plan of gradual and orderly elimination of several annual promotions originally designed to stimulate business during periods of economic slowdown. While the short range effect of this policy decision may result in lesser volume increases or, possibly, volume decreases, it is our estimate that the long range effect will be one of greater benefit to the Company's volume and profit.

We continue our efforts to keep up to date in the development and improvement of sophisticated management systems, methods and techniques. One of our goals is to provide greater liquidity by improving our current inventory turnover ratio. Other objectives are to make available more detailed data on customer profiling and preferences and a substantial speed-up in the flow of vital information to management.

Along with all retailers, we face many uncertainties during this election year of 1968 and in 1969. Our industry is confronted with rising costs, not only at the

manufacturing level, but at the retail and executive levels, as well. Despite the uncertainties and increased costs, we plan to continue our emphasis on fashion, quality, value and marketing effectiveness towards the goal of obtaining accelerated consumer response. Along with operating efficiency, it is our opinion that these programs will help to generate higher levels of volume and profits.

No report to stockholders would be complete without our recognizing and expressing our thanks to our many co-workers for their loyal efforts during the year, our appreciation to our hundreds of suppliers for their continued cooperation and services and, to you, our stockholder, for your interest and confidence.

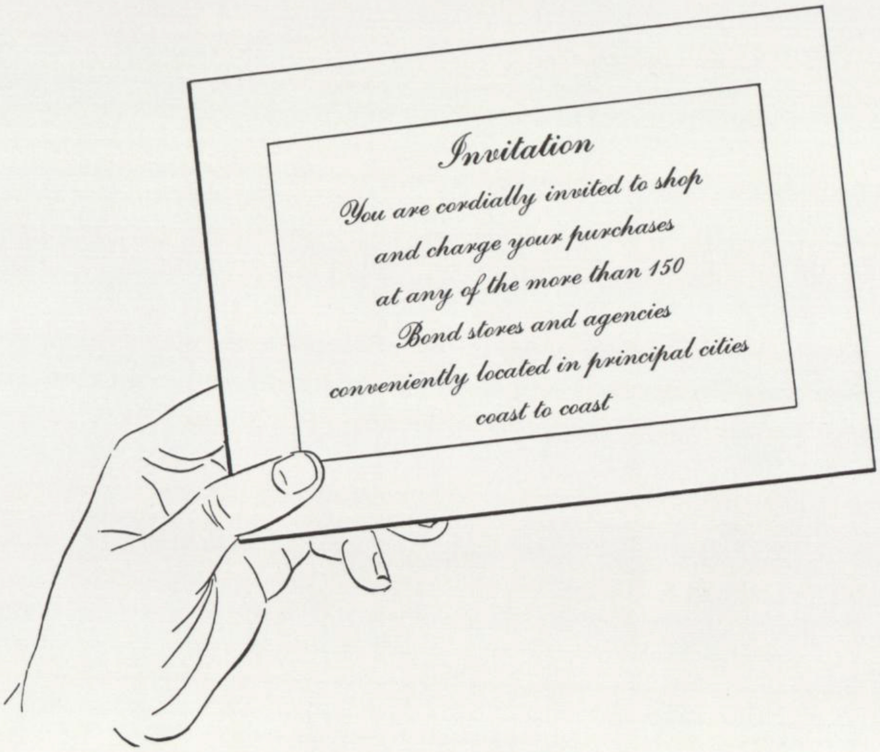
We enclose our Christmas brochure which we plan to mail to customers in mid-November. In it, we hope you will find items of interest for gift-giving and for your personal use.

We call your attention to the facsimile of the invitation below and sincerely hope that you will respond affirmatively.

Respectfully submitted,

President

Chairman of the Board



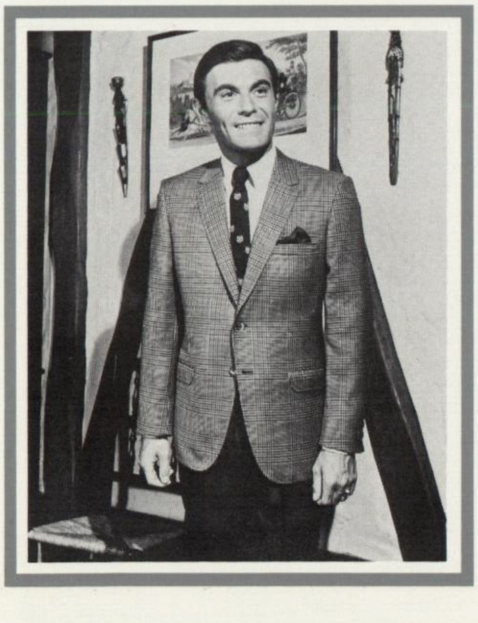
BOND'S NEW FASHION SHOWCASES

In keeping with its policy of steady growth and expansion, Bond's has opened a number of stores in desirable locations. Each one is designed to be beautiful and efficient... a welcome addition to the community it serves. Shown on these pages are examples of some of these new stores together with a sampling of the latest fashions for men, women, boys and girls.

EXTERIOR—COLUMBIA MALL, ATLANTA, GEORGIA

MEN'S APPAREL—COLUMBIA MALL

WOMEN'S APPAREL—COLUMBIA MALL



EXTERIOR—NEW ENGLEWOOD SHOPPING CENTER, DENVER, COLORADO

EXTERIOR—MONTGOMERY MALL, BETHESDA, MARYLAND

BOND STORES, INCORPORATED AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED BALANCE SHEET AS AT JULY 31, 1968-1967

ASSETS

	1968	1967
Current Assets:		
Cash	$ 2,691,846	$ 4,244,295
Accounts receivable—customers, less reserve of $627,433 and $560,621, respectively	24,563,216	21,508,075
Due from bank		149,592
Miscellaneous accounts receivable, including refundable Federal income taxes of $540,000 and $650,000, respectively	1,128,514	1,112,204
Merchandise inventories—Note A:		
Woolens, trimmings, etc.	3,352,774	4,228,764
Work in process	2,165,892	2,099,473
Finished goods	27,618,150	25,692,773
	33,136,816	32,021,010
Unexpired insurance and other prepaid expenses	1,034,018	941,884
Total Current Assets	62,554,410	59,977,060
Other Assets	900,261	1,044,798
Fixed Assets—at cost:		
Land and buildings—Note B	6,328,713	10,890,346
Machinery, furniture, fixtures and equipment	10,020,425	9,562,266
Alterations, improvements and leaseholds	3,064,780	2,930,029
	19,413,918	23,382,641
Less: Reserves for depreciation and amortization	8,985,304	9,375,351
	10,428,614	14,007,290
Deferred Charges:		
Prepaid rent and advances to landlords on improvements to leased properties	495,188	572,362
Other	88,356	92,551
	583,544	664,913
	$74,466,829	$75,694,061

EXHIBIT A

LIABILITIES

	Shares	1968	1967
Current Liabilities:			
Notes payable—banks		$ 1,000,000	$ 4,500,000
Due to bank			1,002,954
Accounts payable		3,782,419	2,910,992
Accrued expenses and sundry liabilities—Note B		5,025,437	4,076,313
Reserve for Federal income taxes		2,865,000	
Deferred Federal income taxes		5,384,581	4,657,066
Total Current Liabilities		18,057,437	17,147,325
Long Term Debt—Note B		6,011,036	14,140,729
Reserve for Unrealized Profit on Sale of Leasehold		675,000	700,000
Capital Stock and Surplus:			
Preferred Stock— par value $100 per share:			
Authorized to be issued in series as designated by the Board of Directors	100,000		
Retired and cancelled	60,000		
Authorized but not designated	40,000		
Common Stock— par value $1 per share:			
Authorized	2,500,000		
Issued	1,688,383	1,688,383	1,688,383
Capital Surplus (no change during the year)		11,596,136	11,596,136
Earned Surplus—Exhibit B		52,488,776	46,471,427
		65,773,295	59,755,946
Less: Treasury stock—at cost (524,044 shares of Common Stock)		16,049,939	16,049,939
		49,723,356	43,706,007
		$74,466,829	$75,694,061

The accompanying notes are an integral part of this statement.

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

EXHIBIT B

	FOR THE YEAR ENDED JULY 31	
	1968	1967
Sales	$105,206,713	$99,258,806
Cost of goods sold and stores and general and administrative expenses, exclusive of depreciation and amortization—Note C	99,477,919	94,823,194
	5,728,794	4,435,612
Add:		
Income from owned real estate before depreciation—Note D	127,108	172,689
Other income—net	231,527	521,527
	358,635	694,216
	6,087,429	5,129,828
Deduct:		
Depreciation and amortization	1,080,861	1,063,900
Interest expense	578,706	943,061
	1,659,567	2,006,961
Income before Federal income taxes and extraordinary item	4,427,862	3,122,867
Provision for Federal income taxes	2,110,000	1,325,000
Income before extraordinary item—Note A	2,317,862	1,797,867
Extraordinary item:		
Gain on sales of real estate—net of applicable Federal ($1,605,000), state and city ($445,000) income taxes—Note E	4,863,826	
Net income—Note A	7,181,688	1,797,867
Earned Surplus as at July 31, 1967-1966	46,471,427	44,699,734
Inventory revision as at July 31, 1967 net of applicable Federal income taxes (deferred) of $1,052,206		1,139,890
	53,653,115	47,637,491
Dividends on Common Stock	1,164,339	1,166,064
Earned Surplus as at July 31, 1968-1967—Exhibit A	$ 52,488,776	$46,471,427
Per share earnings:		
Income before extraordinary item	$1.99	$1.54
Extraordinary item, less income taxes	4.18	
Net income	$6.17	$1.54

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JULY 31, 1968

SOURCE OF FUNDS:	
Net income	$ 7,181,688
Depreciation and amortization	1,080,861
Net book amount of real estate sold, gain on which is shown as extraordinary item	3,670,374
Decrease in other assets and deferred charges	200,906
	$12,133,829

APPLICATION OF FUNDS:	
Dividends on Common Stock	$ 1,164,339
Additions to fixed assets—net	1,172,559
Reduction of long term borrowing	8,000,000
Reduction of mortgages payable	129,693
Increase in working capital	1,667,238
	$12,133,829

BOND STORES, INCORPORATED AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS AS AT JULY 31, 1968

The accompanying financial statements, as reclassified, as at and for the year ended July 31, 1967, are shown for comparative purposes only. Reference should be made to the previously issued report for the Accountants' Report and notes pertaining to those financial statements.

NOTE A:
The merchandise inventories as at July 31, 1968 are stated at the lower of cost (manufacturing costs as to goods manufactured by the Corporation, retail inventory method or invoice cost as to other merchandise) or market, for financial purposes only.

For book and tax purposes, the inventories are computed on a basis which principally excludes manufacturing overhead as an element of cost.

In the computation of cost of goods sold in the prior year, the book basis was used, whereas for the current year the financial basis was used. This change had the effect of increasing net income for the current year by approximately $170,000.

NOTE B:
As at July 31, 1968, long term debt consists of mortgages payable by subsidiaries, net of current installments of $129,693 included in accrued expenses and sundry liabilities.

Land and buildings owned by subsidiaries are subject to first mortgages in the amounts of $3,922, 522, $1,949,383 and $268,824, payable in installments to May 1, 1993, June 1, 1987 and September 1, 1974, respectively. At said dates, the unamortized balances of the mortgages become due and payable. The Corporation is the lessee of certain of the properties under long-term leases, which leases are assigned as collateral under the mortgages.

NOTE C:
Cost of goods sold and stores and general and administrative expenses, exclusive of depreciation and amortization, consist of the following:

Cost of goods sold, including occupancy, buying and alteration costs	$70,337,612
Stores and general and administrative expenses ..	29,140,307
	$99,477,919

NOTE D:
This item includes intercompany rental on property partly occupied by the Corporation.

NOTE E:
In May 1968, two of the Corporation's wholly owned subsidiaries sold certain real estate located in New York City. A certain portion of the sold premises is occupied as a retail store by the Corporation. The gain realized from the sales, after expenses and applicable Federal, state and city income taxes, amounted to $4,863,826. Concurrently, one of the wholly owned subsidiaries entered into a net lease with the buyer for the entire premises for a period of five years with renewal options as to the store premises only, which lease is subject to earlier termination by the buyer for the purpose of razing the existing structure and constructing a new building on this property; also, a long term lease agreement was entered into with the buyer for store premises in the new building.

GENERAL:
The Employees' Profit Sharing and Retirement Fund Trust Agreement, as amended, provides, among other things, for (1) voluntary contributions by eligible employees, (2) contributions by the Corporation and its subsidiaries, out of net earnings for the year as defined in the agreement, based upon the participating employees' contributions, (3) additional contributions by the Corporation and its subsidiaries computed at various percentages of net earnings for the year as defined in the agreement after deducting therefrom $4,000,000 plus $1 per share for any additional shares which the Corporation may issue after December 31, 1952, excluding additional shares resulting from stock dividends or split-up of stock, and (4) the right of the Corporation to discontinue contributions to the plan. The contributions of the Corporation and its subsidiaries for the year ended July 31, 1968, approximated $40,000.

As at July 31, 1968, the aggregate minimum annual rental upon real property leases, other than intercompany leases, amounts to approximately $4,328,000. Of the foregoing amount, $582,000 expires prior to 1971, $2,490,000 expires between 1971 and 1981 and $1,256,000 expires thereafter. Certain of these lease agreements provide for additional rentals based on sales or for payment of certain expenses, such as real estate taxes and maintenance costs.

In connection with the profitable sale in a prior year of a leasehold which expires on April 30, 1998, the Corporation guaranteed performance (guaranteed in turn to the Corporation by the parent company of the purchaser) of the obligations under the lease to April 30, 1996, including net annual rental payments of $24,000 to April 30, 1975, and $32,500 thereafter.

The Corporation, certain of its officers and directors and others are defendants in a Stockholder's derivative action now pending in the U.S. District Court for the Southern District of New York. No monetary recovery is sought against the Corporation. The Corporation's By-Laws provide for indemnification of directors and officers in certain situations against costs and expenses reasonably incurred by them in such cases. Inasmuch as such costs and expenses, if any, which may be incurred in this action have not been determined, no provision has been made therefor in the accompanying financial statements.

Prepaid expenses included in deferred charges in prior years are shown as current assets as at July 31, 1968.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS
BOND STORES, INCORPORATED
NEW YORK, N.Y.

We have examined the consolidated balance sheet of Bond Stores, Incorporated, and subsidiaries as at July 31, 1968, and the related consolidated statement of income and earned surplus and the supplemental consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and earned surplus present fairly the consolidated financial position of Bond Stores, Incorporated, and subsidiaries at July 31, 1968, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except as stated in Note A. It is also our opinion that the consolidated statement of source and application of funds presents fairly the supplemental information shown therein.

NEW YORK, N.Y.
OCTOBER 7, 1968

S. D. LEIDESDORF & CO.

LOCATION OF BOND STORES AND AGENCIES

ALABAMA
BIRMINGHAM

CALIFORNIA
ANAHEIM
CANOGA PARK
EL MONTE
GLENDALE
HOLLYWOOD
HUNTINGTON BEACH
HUNTINGTON PARK
LAKEWOOD CENTER
LOS ANGELES (5 stores)
NORTH HOLLYWOOD
OAKLAND (2 stores)
PANORAMA CITY
SAN DIEGO (3 stores)
SAN FRANCISCO
SAN JOSE (2 stores)
WEST COVINA

COLORADO
DENVER (2 stores)
ENGLEWOOD

CONNECTICUT
HAMDEN
HARTFORD
MILFORD
NEW HAVEN
*TORRINGTON
TRUMBULL

DELAWARE
*WILMINGTON

DISTRICT OF COLUMBIA
WASHINGTON

FLORIDA
*JACKSONVILLE

GEORGIA
ATLANTA
DECATUR

ILLINOIS
CHICAGO (7 stores)
HILLSIDE
KANKAKEE
NILES

IOWA
DES MOINES

KENTUCKY
LOUISVILLE (3 stores)

LOUISIANA
*MONROE

MARYLAND
BALTIMORE (2 stores)
BETHESDA
HYATTSVILLE
MARLOW HEIGHTS

MASSACHUSETTS
BOSTON
FALL RIVER
*LAWRENCE
REVERE

MICHIGAN
DETROIT
MADISON HEIGHTS
MT. CLEMENS
PONTIAC

MINNESOTA
MINNEAPOLIS

MISSOURI
KANSAS CITY
ST. LOUIS (4 stores)

NEBRASKA
*HASTINGS

NEW JERSEY
AUDUBON
EATONTOWN
JERSEY CITY
MENLO PARK
MOORESTOWN
NEWARK
NEW BRUNSWICK
PARAMUS
TRENTON

NEW YORK
ALBANY
BUFFALO
*ELMIRA
HICKSVILLE, L.I.
HUNTINGTON, L.I.
NEW HYDE PARK, L.I.
NEW YORK (6 stores)
ROCHESTER (3 stores)
SCHENECTADY
SYRACUSE (2 stores)
VALLEY STREAM, L.I.
BAY SHORE, L.I.

OHIO
AKRON (4 stores)
CANTON
CINCINNATI (2 stores)
CLEVELAND (5 stores)
COLUMBUS (2 stores)
DAYTON
LORAIN
*SALEM
TOLEDO (2 stores)
YOUNGSTOWN

PENNSYLVANIA
*CHESTER
PHILADELPHIA (3 stores)
PITTSBURGH (2 stores)
READING
SCRANTON
WILKES-BARRE

RHODE ISLAND
PROVIDENCE

TENNESSEE
CHATTANOOGA
MEMPHIS (2 stores)

TEXAS
AUSTIN
DALLAS (4 stores)
FORT WORTH (2 stores)
HOUSTON (5 stores)
SAN ANTONIO (2 stores)

VERMONT
*BARRE
*RUTLAND

VIRGINIA
ALEXANDRIA
FALLS CHURCH

WEST VIRGINIA
*PARKERSBURG

WISCONSIN
MILWAUKEE (2 stores)

*AGENCIES

Factories in Rochester, Poughkeepsie & Buffalo, N. Y., New Brunswick, N. J., and Meridian, Miss.